Approved ______________________
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Elizabeth Baker Chairperson at

3:36 ~~a.m.~~/p.m. on Tuesday, March 21, 1989 in room 423-S of the Capitol.

All members were present except: Representatives Chronister, Heinemann, Aylward and Dean. Excused.

Committee staff present:
Jim Wilson, Revisor
Lynne Holt, Research
Elaine Johnson, Secretary

Conferees appearing before the committee:
Senator Dave Kerr
Charles Warren, President, Kansas Inc.
Anna Anderson, Vice President, Bank IV, Wichita
Jim Parmalee, Taylor Forge Engineering System
Ray Williams, Regional International Trade Office, U.S. Small Business Administration
Les Boll, Commerce Bank and Trust, Kansas City, Missouri

The meeting was called to order at 3:36 p.m. by Chairman Baker.

Chairman Baker informed the committee that the minutes of the March 14, 15 and 16, 1989 meetings were in the commitee member's folders and we would ask for approval at tomorrow's meeting.

Chairman Baker then opened the hearing on S.B. 21 and recognized Senator Dave Kerr.

Senator Kerr briefed the committee on the background of the bill and the amendments added by the senate.

Senator Kerr responded to questions from the committee.

Charles Warren, President, Kansas Inc. testified in support of S.B. 21. He feels the most important economic development decisions the 1989 legislature will make concern these efforts to make Kansas a stronger presence in the global marketplace. Mr. Warren said the Board of Directors of Kansas Inc. has endorsed S.B. 21 and recommends that the Legislature enact a new export financing program during this session. (Attachment l).

Lynne Holt, Legislative Research Department passed out (Attachment 2) to the committee members.

Anna R. Anderson, Vice President, Bank IV of Wichita was the next conferee to testify in support of S.B. 21. She stated that for the exporter, the Kansas Export Loan Guarantee Fund can increase his financing options with a local bank. For bankers, the program will domesticate and localize the risks indigenous to export finance. This fund will make it possible for smaller exporters and local banks to benefit from Eximbank's loan guarantee and insurance programs. Some of the frustrations experienced by small exporters can be eliminated or reduced significantly. If the Kansas Export Finance Act can resolve one of the exporter's thorniest problems - the lack of available export finance, then it deserves our support. (Attachment 3).

Ms. Anderson responded to questions from the committee. Chairman Baker asked if she had copies of the slides shown at the informal Senate Committee meeting. Ms. Anderson said she did not have those with her but would be happy to send them to Chairman Baker. Chairman Baker thanked her and said that she felt these would be very helpful to the committee in understanding this bill.

Jim Parmelee, Chief Financial Officer to Taylor Forge Engineered Systems, Inc. testified in support of S.B. 21. He feels that a lot more could be done but this bill is a good start. Mr. Parmelee addressed three specific concerns he has with the bill. (Attachment 4).

Mr. Parmalee responded to questions from the committee.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 423-S, Statehouse, at 3:36 ~~xxx~~/p.m. on Tuesday, March 21, 1989

Ray Williams, Regional International Trade Officer with the U.S. Small Business Administration was the next conferee. Mr. Williams supports the bill but addresses four concerns he has with the bill. (Attachment 5).

Les Boll of Commerce Bank and Trust, Kansas City, Missouri addressed the committee briefly on his support of S.B. 21.

Mr. Boll responded to questions from the committee.

Chairman Baker announced that we would continue the hearing tomorrow and have continued committee discussion and possible action on S.B. 21.

The meeting adjourned at 5:06 p.m.

Elizabeth Baker

Date: 3/21/89

GUEST REGISTER

HOUSE

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
Charles R Warren	Kansas Inc.	Topeka
Harry Salisbury	KDOC	Topeka
RAY Williams	U.S. SBA	Kansas City
Glenn Davis	Kansas City District, SBA	Kansas City
Chuck Stones	KBA	Topeka
Les Boll	Commerce Bank	Kansas City
Jim Parmelee	Taylor Forge Eng Sys	Paola Ks.
Roger P. Nelson	IPPBR	Lawrence.
[illegible] Anderson	BANK IV	Wichita
Ann Patterson	KDOC	Topeka

KANSAS inc.

Governor Mike Hayden, Co-Chairman
Eric Thor Jager, Co-Chairman

Charles R. Warren, President

CAPITOL TOWER, SUITE 113 • 400 S.W. 8TH • TOPEKA, KANSAS 66603-3957 • TELEPHONE (913) 296-1460

Senate Bill 21

Export Finance Loan Guarantee Program

Testimony

by

Charles R. Warren
President, Kansas Inc.

House Committee on Economic Development
March 21, 1989

House Eco Devo Committee
Attachment 1 3/21/89

International exports offer a significant potential to improve and expand a state's economy. The Kansas strategy for economic development views exports as a top priority for attention.

It is abundantly clear that much of the recent economic gains nationally have been due to growing foreign demand for U.S. products. Just recently Business Week magazine commented that: "surging foreign demand is revitalizing manufacturing and putting new zest into business investment." The impact of rising exports on the U.S. economy are startling. According to Business Week:

> During the past four quarters, exports directly contributed $80 billion of the $143 billion growth in real gross national product.

We believe that much of the recent positive news about the Kansas economy can be attributed in part to our participation in export related growth that is occuring throughout the United States.

The extent to which the State economy continues to prosper over the next several years will depend primarily on our ability to play an increasingly important part in these growing export markets. We can take advantage of the growth in foreign demand for U.S. products by: 1) adding value to our agricultural products; 2) by supporting the smaller manufacturing firms in the state; and, by providing greater assistance to those firms who are interested in entering the export market or expanding their sales overseas.

Background of Senate Bill 21

S.B. 21 is the product of extensive research and analysis and lengthy deliberation by the Joint Committee on Economic Development during the interim session, as well as at least five days of hearings and discussions by the Senate Committee on Economic Development.

During the hearings by the Joint Committee this summer, we received information from state officials of Minnesota and Illinois on their export financing programs. The legislation adopts the Minnesota program's feature centered on loan guarantees. This has the advantage of leveraging state money up to $4 million and keeps the state out of the direct lending business. As opposed to Minnesota's emphasis on pre-shipping financing, the legislation will provide a small business with a source of guaranteed financing either prior to shipment or after the goods have been shipped. Testimony has indicated that a source of funds during both periods in the exporting process is critical to a small business.

We also heard very positive testimony from the Small Business Administration, the U.S. Department of Commerce, and the banking community of both Missouri and Kansas. Several Kansas companies testified both this Summer and during the Session in support of this program. I believe a number of letters from Kansas firms have been made available to you. In all of the testimony presented, we have not received any negative comments or doubts about the need for, or feasibility of, this proposed program.

During 1988, Kansas Inc. commissioned a survey of exporters and non-exporters to identify the potential for increasing exports and to determine ways in which the state might assist. Our survey results showed strong support for a new program of financial assistance. The survey's audience included firms that currently export and non-exporters. Firms that currently export are optimistic about their potential to expand their export market. Almost 55 percent of the survey group of exporters felt they had great potential to increase export sales. 43 percent of non-exporters identified lack of financing as a reason that prevented them from exporting. About 65 percent of all the firms we surveyed suggested export finance assistance as a need.

I feel the most important economic development decisions the 1989 legislature will make concerns these efforts to make Kansas a stronger presence in the global marketplace. This bill has been given a thorough examination and there have been a number of technical corrections to improve it. We have learned from the other states with similar programs and should have a superior approach. We have some very good conferees on this topic today and I hope that during today and tommorow any questions and concerns will be addressed.

The Senate has already appropriated $1 million from EDIF to provide the loan guaranty fund for the program.

The Board of Directors of Kansas Inc. has endorsed Senate Bill 21 and recommmended that the Legislature enact a new export financing program during this session. I urge your favorable consideration.

Commerce agency urges companies to look overseas

George Lavid is the trade specialist in the one-person Wichita branch office of the U.S. Department of Commerce. As a trade specialist, he promotes overseas exporting by companies in a 42-county area of south central and southwest Kansas. He works primarily with small and medium-size companies, local chambers of commerce, trade councils, the Kansas Department of Commerce and the State Board of Agriculture. Staff writer Frank Garofalo interviewed him on his department's "Export Now" campaign and area exporting. Here is an edited transcript.

Q&A
With George Lavid

Q. There's a campaign in Wichita to gain more interest in exporting. Would you explain its purpose?

A. It's part of a national campaign working with the private business sector and state agencies. It was developed by the secretary of commerce and was started Feb. 24, 1988. The idea is to promote export awareness, with the goal of encouraging small and medium-sized companies to get involved in exporting and to take advantage of more favorable exchange rates and the broad range of U.S. government exporter services.

Q. Did the U.S. trade deficit prompt this campaign in order to increase our exports?

A. Yes. We've tried to emphasize that there are at least an additional 30,000 small and mid-sized companies nationwide that should be exporting.

Q. How many companies in your coverage area are exporting?

A. I would say between 200 and 300 firms are exporting. Probably more like 250, most of them in the Wichita area. I would roughly estimate that there may be between 20 or 30 more firms that could be exporting. Other developments I'll just mention: the free trade agreement with Canada is a wonderful plus that should really help many businesses here. And then Europe 1992, we hope, will develop in such a way that it will make those 12 European countries wealthier and with that increased wealth there would be more demand for American products. But the Canada free trade agreement is a done deal and that's a wonderful plus in addition to the lowering of the value of the dollar.

Q. How is the campaign being promoted in Wichita?

A. Through the efforts of the Mid-America District Export Council and Donrey Outdoor Advertising Co., we've managed to get two billboards up to advertise Export Now. It's also being promoted through the department's Business America magazine that's published every two weeks, a monthly newsletter that goes out to businesses and through seminars.

Q. Has the campaign been effective?

A. Yes, it has worked because firms that I've not heard of before are exporting. Most of our exports are either agricultural products or high-technology items, but I'm beginning to get more calls from small consumer product firms because the lowering of the dollar has just provided a lot of opportunity. My mailing list is expanding.

Q. If a business is interested in getting involved, what should it do?

"There are at least an additional 30,000 small and mid-sized companies nationwide that should be exporting."
— George Lavid

A. Contact me. We will look at your products and see where the top markets are for those products and then look for specific representatives in those markets who can market your products. A company also could have a custom-tailored report prepared for it for a specific market. That has a user fee of $500. We also can provide mailing lists.

Q. Can the private sector groups, like the Mid-America World Trade Center and Wichita Trade Council, assist a business?

A. Yes. I think working with the Wichita Trade Council and the World Trade Center provides a forum for experienced exporters to show the new companies how they've done it. It provides the hands-on success stories. A firm should not be intimidated by all the paperwork. There is help available from various groups and companies.

Q. Does a business have to be in manufacturing to get involved in exporting?

A. Yes, primarily, but not exclusively. There are services, like engineering services and others, that are involved in exporting. But the majority of the firms are in manufacturing.

Q. What types of Wichita area businesses are involved in exporting?

A. A lot of it is general aviation. In 1988 and 1987, their exports were up 30 percent and 40 percent. Also, a lot of aviation parts and instruments manufacturers are exporting.

Q. What about manufacturers of consumer products?

A. Yes, companies like Coleman and Gott. Also quite a few commercial lawn mower manufacturers do a lot of exporting. Another is the beef industry in southwest Kansas. Decal printing business companies, like Sharpline and Universal Products, are exporting. That's an industry that seems to be growing here.

Q. Where do Wichita exports usually go?

A. The biggest importer of U.S. goods is Canada. The next is Japan, our best overseas market. Mexico is next; it's booming. The United Kingdom is fourth and West Germany is fifth. Other western European countries are high on the list and South Korea and Taiwan also are excellent markets. Australia is good for ag equipment products.

Q. Do you have any statistics on exports? Like the annual dollar value of exports from here?

A. In 1984, Kansas ranked 27th among the states in exporting manufactured products with a value of $1.62 billion. In 1986, the total climbed to $2.86 billion. That was the latest year available.

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3/21/89

WST

Why U.S. Exports Are a Casualty

By Paul W. McCracken

When it comes to the economy, we often have considerable difficulty trying to decide whether we're looking at a problem or a solution. This is clearly true with the trade deficit. That it is widely considered to be a problem, a serious problem, is clear enough from the rhetoric of the discussions, but that certainly is not all there is to say about the matter.

One could also argue that the international economic order would be in far worse shape today if the U.S. had not been willing to accept, however grudgingly, a sharp deterioration in its merchandise trade account during the current decade. Take trade with Canada, America's largest trading partner.

In 1980 (a good place to begin, since in that year the U.S. still ran a small current account surplus) imports from Canada were $43 billion, roughly $2 billion more than Canada's imports from the U.S. If U.S. trade with Canada had grown only *pari passu* with the growth in the U.S. economy, U.S. imports from Canada last year would have been $8 billion to $10 billion less. It seems reasonable to assume that if U.S.-Canadian trade had been close to a balance—meaning Canada's exports to the U.S. would have been lower by an amount equal to close to 2% of its gross national product—the Free Trade Agreement would have been interred in the archives of noble gestures gone awry, as were its predecessor attempts.

Looking Down the Road

If U.S. imports from Latin America last year had been limited to the volume of U.S. exports to the area, these countries' sales to the U.S. would have been about $10 billion less. And if that had occurred, one can confidently assume that some U.S. bankers, already prone to waking up in the middle of the night worrying about their loans to these countries, would be having even more anxious thoughts about prospects for repayment.

Even so, a world economy in which the largest nation runs a current-account deficit equal to 3% or so of its GNP does not reflect the balance that leaves us comfortable as we look down the road. Too many things could happen. The disruptions that could occur if high-saving countries such as Japan and West Germany terminated their purchases of U.S. securities, which finance these deficits, could be severe. Moreover, a wealthy nation such as the U.S. really should be having a net flow of real capital outward in a well-ordered world economy. The U.S. is instead a major competitor of the capital-poor nations for the inevitably limited international flows of capital.

A persuasive assumption is that America's trade problems reflect a tidal wave of imports in the 1980s, particularly from the Pacific Rim. Imports from Japan, for example, have doubled since 1983 and almost tripled since 1980.

It may therefore come as a surprise to some that the deluge of imports has not been the basic source of the U.S. trade imbalance in the 1980s. Last year's $440 billion in imports jibes with historical trends. Merchandise imports were equal to just over 9% of GNP, about the same as in 1980. (They were 7.8% of GNP in 1982, but imports were low that year because of the recession.)

The key to the U.S. trade problem is not bloated imports but weak exports. Even in 1988, after a sharp recovery, exports were only 6.6% of U.S. output, compared with just over 8% in 1980.

But the 1980 standard is now not going to be good enough. Because of large and sustained foreign borrowing during the 1980s, the U.S. no longer has the annual $50 billion to $60 billion in net investment income from abroad that would have been coming into the till annually had the U.S. continued to be a net lender. To achieve a reasonable balance, therefore, the U.S. must export a further increment of its output abroad to take the place of these lost net investment earnings.

Board of Contributors

The key to the U.S. trade problem is not bloated imports but weak exports. In 1988, after a sharp recovery, exports were only 6.6% of U.S. output, compared with just over 8% in 1980.

The magnitude of the further adjustment required is not trivial. If the U.S. were to set as the target for 1993 a balance in its current account, merchandise exports in that year would have to approach 10% of GNP. That would require a 16%-a-year increase in U.S. sales abroad. That would be less than the 26% gain last year but an ambitious figure for an economy growing in nominal terms at less than half that pace. However unrealistic these figures seem, they are a measure of how far U.S. export performance has lagged behind.

Because the restoration of a reasonable balance in the U.S. trade position will require a sustained and large further improvement in export performance, the U.S. faces some urgent questions. Why did the rate of improvement fade after the first half of last year? Did the ball take a bad bounce, reflecting no basic problems, or have the forces making for a stronger U.S. external payment position largely now spent themselves? How does Washington factor all of this into the management of economic policy?

One obvious question is whether the U.S. is out of the international trade ball game because costs in the U.S. are not competitive. If so, that would indicate the need for a further decline in the exchange rate of the U.S. dollar to gain an adequate competitive position—though that would exert some upward pressure on the U.S. price level at a time of growing domestic worries about that problem.

The evidence suggests that, in fact, America's basic cost position in manufacturing (where the large further increase in exports must occur) ought now to be quite competitive internationally. As indicated earlier, a good benchmark year is 1980, since the U.S. had a small current account surplus then, and it also had a small net export surplus in manufactured goods.

In 1987 (the last year for which these data are available), U.S. unit labor costs in manufacturing were 7% higher than in 1980. How about the other major industrial economies? With data for all countries denominated in U.S. dollars, to allow for the effect of exchange-rate changes, Japan's manufacturing unit labor costs were up almost 50% and Germany's, 18%. These are the two most successful exporters of manufactured products of the world's Big Seven.

The empirical evidence does not support the view that progress toward further improvement in the U.S. trade picture is stalled because U.S. industry's costs generally are still out of line. America's comparative cost position is now more favorable, relative to its major international competitors than in 1980 when the U.S. had a comfortable current-account position.

Yet, sustained further progress toward such a comfortable position now eludes the U.S. Why?

A laundry list of reasons could be produced. Some new industrial-powerhouse exporters (e.g., South Korea) have emerged since 1980. Europe's domestic economic sluggishness and preoccupation with reducing internal barriers have had an inhibiting effect on U.S. exports. The severe overvaluation of the dollar earlier in the decade enabled some foreign manufacturers to establish themselves in markets, and now established they are tough to displace.

At the Margin

The main problem is that further improvement in America's external trade is becoming a casualty of exuberant domestic demand. The domestic economy is now at full employment. The February release of the National Association of Purchasing Management reports shortages of a wide range of items—aluminum, steel, paperboard, polyethylene, resins, bearings. As has been true for other economies, policies that press domestic demand against the outer limits of Americans' capacity to produce are a good recipe for trade problems. At the margin, strong domestic demand pulls in more imports. And for businesses at home, the strong domestic market leaves little reason to pursue export sales. This is particularly true in the U.S., where businesses have never had the tradition of export-mindedness.

Confident economic prognoses that something will happen if something else is not done frequently go awry. The U.S. trade picture may show strong further improvement in 1989, but that would be a high-risk assumption. Tricky as economic navigation has now become, the needed further sustained and large improvement in our external trade is not apt to occur unless U.S. businesses become hungrier for export orders. And the origin of that must be less expansive domestic monetary and fiscal policies.

Mr. McCracken is professor emeritus, the University of Michigan.

House Eco Devo Committee
Attachment ~~2~~ 3/21/89

Testimony in Support of the Kansas Export Finance Act

Senate Bill No. 21

March 21, 1989

Anna R. Anderson

House Eco Devo Committee
Attachment 3 3/21/89

Testimony in Support of the Kansas Export Finance Act

Senate Bill No. 21

We all realize that the foreign market for U.S. products and services is a fundamental part of our economic structure. The U.S. Department of Commerce estimates that one out of every six manufacturing jobs in America is attributable to export sales, and the concentration of foreign sales related jobs in Kansas is greater still for some companies. Beech Aircraft Corporation, for instance, reports that 1,000 of its Kansas jobs are export related. GT, Inc., in Clay Center, with 61 employees, depends on foreign markets for 93% of its total sales volume. For many Kansas companies, the export market is not just a means of growth. It is one of survival. For Kansas itself, growth in export related business as a means of economic development is not only possible but imperative.

Success in export markets can be achieved without the assistance of state agencies and loan guarantee programs, but since the Kansas Department of Commerce estimates that twice the number of small Kansas companies that do export, could enter that market, we would be remiss if we failed to promote that possibility as a means of economic development in the state. One way we can help is to address the basic needs of the small exporter for export finance.

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The Needs of the Exporter

In addition to the basic needs of any business, the company that crosses international boundaries in search of markets encounters difficulties that require special assistance to overcome. The most common are:

- Access to advice and learning opportunities about the export process

- International freight forwarding services

- International banking services

- Export finance

Resources Currently Available to the Small Exporter

Export Information

Government agencies, trade associations and institutions of higher learning provide seminars and workshops about various aspects of the export process. Topics range from country risk assessment to marketing models, export licensing to document preparation. Some organizations also offer networking services, credit research and specific market development data. A considerable amount of help is available from the private sector where experienced business people share their expertise with fledgling exporters. There is much to be accomplished in the area of education but the need has been identified and is being addressed.

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Export Services

International freight forwarding and international banking services are also available. Though not in every location on a direct basis, access to these services through the mail and by telephone is generally satisfactory. Better availability of these services will follow increased demand for them.

Export Finance

Unlike other needs of the small exporter which have been addressed and to some extent are being met, the lack of locally available export finance remains a problem. A large company usually has more than one banking relationship. A void that exists with the services of one bank can be filled by another. A small company, on the other hand, is financed solely by a local community bank. His primary needs are the same as that of any other business, for working capital to develop a market, produce a product and finance receivables. However, if his specific requirements for export finance cannot be met by his bank, then his ability to enter or expand a foreign market will be limited. The inability of some banks to respond to the small exporter's needs is understandable.

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3/21/89

Prudent bankers have policies against engaging in activities which go outside their area of expertise and sphere of control. These activities may include out of territory lending or use of unfamiliar instruments of finance such as letters of credit, forward contracts for hedging foreign exchange risk and bankers acceptances. They will therefore be unlikely to finance foreign receivables or, when determining a customer's borrowing base, consider those receivables an asset available to pledge as collateral.

Most Kansas bankers recognize the potential for their customers in export markets, and while they realize their own limitations, they would like to participate to the extent that it makes sense for them to do so.

What the Kansas Export Loan Guarantee Fund Can Do

For the exporter, the Kansas Export Loan Guarantee Fund can increase his financing options with a local bank. For bankers, the program will domesticate and localize the risks indigenous to export finance. The program will also provide a pool of expertise so that as each export transaction is reviewed, the banker will become more knowledgeable and gain new insights into the export process. Ideally, there will be a trickle down effect as banker and exporter increase their understanding and comfort with international business.

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Having the Kansas Export Loan Guarantee Fund will make it possible for smaller exporters and local banks to benefit from Eximbank's loan guarantee and insurance programs. Eximbank has established a nationwide Eximbank City/State Agency Cooperation Program for the purpose of helping economic development agencies assist smaller exporters in financing their export sales with the support of programs offered by Eximbank and its agent, the Foreign Credit Insurance Association. These programs used to be the domain of big business and larger banks. A State agency, however, can now qualify for direct access to Eximbank programs and professional assistance.

Some of the frustrations experienced by small exporters can be eliminated or reduced significantly. If the Kansas Export Finance Act can resolve one of the exporter's thorniest problems - the lack of available export finance, then it deserves our support.

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3/21/89

Relevant Professional Background Information

Anna R. Anderson
Vice President
Manager, International Services
BANK IV Wichita, N.A.

Employed in the Commercial Lending Division of BANK IV Wichita since 1978; Managed International Services department since 1984.

Other related professional experience:

Graduate, American Bankers Association School for International Banking, University of Colorado, Boulder

Member - Mid America District Export Council

International Trade Coordinating Council

World Trade Council of Wichita

President - Wichita Committee on Foreign Relations

a-3-7
3/21/89

Exim News

THE OFFICE OF PUBLIC AFFAIRS
TELEPHONE: (202) 566-8990

FOR IMMEDIATE RELEASE
February 27, 1989

EXIMBANK ANNOUNCES CITY/STATE AGENCY COOPERATION PROGRAM

The Export-Import Bank of the United States has announced a nationwide Eximbank City/State Agency Cooperation Program, following the successful conclusion of a one-year pilot program conducted with three cities (Columbus, OH, Los Angeles, CA, and Tucson, AZ) and three states (California, Maryland and Massachusetts). The goal of the pilot program was to learn how to enhance the ability of local agencies to assist smaller exporters in financing their export sales with the support of programs offered by Eximbank and its agent, the Foreign Credit Insurance Association (FCIA).

In announcing the new national program, Eximbank President and Chairman John A. Bohn, Jr., said, "Over the past year Eximbank and the six pilot locations around the country have learned a great deal about how to deliver the benefits of Eximbank's loan, guarantee and insurance programs to small and medium-sized exporters through City and State economic development agencies. Now, we want to help other locations take advantage of this experience through a new outreach program. If they will commit people and resources to learning about our programs and techniques to finance exports here at Eximbank and at FCIA in New York, we will match that commitment with on-the-spot training, guidance and marketing expertise from our own strictly limited resources. Cities and States that are seriously

- MORE -

EXIMBANK
EXPORT-IMPORT BANK OF THE UNITED STATES
811 VERMONT AVENUE, NW
WASHINGTON, DC 20571

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dedicated to promoting jobs through exports can count on effective assistance from Eximbank."

The agencies participating in the pilot program helped to promote and package export loan, guarantee and insurance applications in the field, and thereby reduced the time needed by Eximbank to process and approve the applications. The pilot program generated 26 export support transactions that were approved by Eximbank or FCIA, totaling $18.5 million, and left trained personnel and procedures in place to generate on-going business with small and medium-sized firms.

To participate in the new program, a State or City export development agency must demonstrate an established budgetary commitment, and must send two qualified professionals to Eximbank's four-day orientation seminar, a week of advanced training at Eximbank and a week at FCIA in New York. An Eximbank marketing specialist will then be assigned to the participating agency for at least one week to assist in program development, joint calling and other forms of outreach. Interested agencies should contact:

Mr. Robert J. Kaiser
Vice President - Marketing and Program Development
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, D.C. 20571.

- END -

a-3-9
3/21/89

TAYLOR FORGE ENGINEERED SYSTEMS, INC.

First & Iron Streets • Paola, Kansas 66071
Tel: 913-294-5331 • Telex: 62192610
FAX: 913-294-5337

REMARKS TO BE GIVEN TO
HOUSE ECONOMIC AND DEVELOPMENT COMMITTEE
ON SENATE BILL NO. 21

JIM PARMELEE IS THE CHIEF FINANCIAL OFFICER TO TAYLOR FORGE ENGINEERED SYSTEMS, INC. AND DIRECTOR OF TAYLOR FORGE ENGINEERED SYSTEMS INTERNATIONAL, LTD.

TAYLOR FORGE ENGINEERED SYSTEMS MANUFACTURES HARDWARE SUCH AS PRESSURE VESSELS FOR THE ENERGY AND AEROSPACE INDUSTRIES. WE HAVE MANUFACTURING PLANTS IN PAOLA AND GREELEY, KANSAS WITH A CURRENT EMPLOYMENT OF ABOUT 160 PEOPLE. THESE FACILITIES HAVE A CAPACITY THAT WOULD ALLOW US TO INCREASE EMPLOYMENT BY 100 MORE PEOPLE. WITH THAT KIND OF AVAILABLE CAPACITY WE COULD HANDLE A LOT MORE EXPORT BUSINESS. HOWEVER, IF WE ADDED 25-50 WORKERS WE WOULD BE AT OUR BORROWING LIMIT WITHOUT THE HELP OF SOMETHING LIKE SB 21.

CURRENTLY WE EXPORT 10-20% OR 1 TO 2 MILLION DOLLARS A YEAR. WE EXPORT TO MOST NON-COMMUNIST AREAS THAT PRODUCE GAS AND OIL SUCH AS NORWAY, KUWAIT, THAILAND, EGYPT, AUSTRAILIA, MEXICO AND CANADA. IN ADDITION WE SUPPLY SOME PARTS TO POWER PLANTS IN NON-OIL AND GAS REGIONS.

House Eco Devo Committee
Attachment 4 3/21/89

TO ADDRESS BILL NO. 21 DIRECTLY, I WOULD LIKE TO SAY THAT WE STRONGLY SUPPORT THE DIRECTION IT TAKES. I WOULD ALSO LIKE TO COMMEND OUR STATE GOVERNMENT ON ITS' CONTINUING EFFORT TO INCREASE KANSAS EXPORTS. THERE IS A LOT MORE TO BE DONE BUT YOU ARE MAKING A GOOD START WITH SB 21.

ALTHOUGH THIS IS A GOOD BILL, IT COULD BE BETTER. I WOULD LIKE TO BRIEFLY TOUCH ON A FEW AREAS THAT COULD HELP TAYLOR FORGE ENGINEERED SYSTEMS.

MY FIRST POINT IS TO ADDRESS THE $300,000 GUARANTEE LIMIT. I CAN ENVISION IN OUR CASE THE LIMIT NEEDED COULD BE A HIGHER AMOUNT IF WE WERE BUSY. WE HAVE HAD INDIVIDUAL ORDERS FOR MORE THAN $1,000,000. AT ONE TIME LAST YEAR, WE HAD QUOTATIONS FOR SIX ORDERS OVER A MILLION DOLLARS EACH, OF WHICH THREE WERE EXPORTS. IF WE WOULD HAVE WON ALL SIX OF THOSE QUOTATIONS WE WOULD HAVE HAD TO TURN TWO OR THREE DOWN DUE TO A LACK OF FINANCING.

I WOULD LIKE TO SEE THE REVIEW COMMITTEE GIVEN THE AUTHORITY TO GIVE LARGER GUARANTEES IF THE COMPANY'S BALANCE SHEET LOOKS GOOD ENOUGH TO WARRANT A LARGER AMOUNT.

MY SECOND POINT DEALS WITH THE 360 DAY MAXIMUM GUARANTEE PERIOD. IN OUR CASE THIS WOULD BE GOOD 90% OF THE TIME, BUT ON LARGE EXPORT ORDERS THE LENGTH OF TIME FROM RECEIPT OF MATERIAL TO RECEIPT OF THE FINAL PAYMENT COULD BE 18 MONTHS OR LONGER. THIS HAS HAPPENED ON LARGE ORDERS OR WHEN THE CUSTOMER CREATES DELAYS. THIS MONTH WE WERE CONFRONTED

WITH A NEW PROBLEM WITH EVEN A LONGER TIME FRAME. A NEW CUSTOMER BASED IN FINLAND REQUIRED A THREE YEAR LETTER OF CREDIT FOR AN AMOUNT EQUAL TO 10% OF THE ORDER. IN THE CASE OF THIS ORDER THE AMOUNT WILL BE $40,000. WE HOPE TO RECEIVE TWO MORE ORDERS IN APRIL THAT WILL REQUIRE ADDITIONAL LETTERS OF CREDIT FOR $70,000. AS THE LC'S ACCUMULATE AND OVERLAP OUR BORROWING POWER IS REDUCED. HERE AGAIN, I WOULD LIKE TO SEE THE REVIEW COMMITTEE GIVEN THE AUTHORITY TO EXTEND THE TIME FRAME FOR GOOD PROJECTS IF THE THREAT OF DEFAULT DOES NOT INCREASE GREATLY.

THE THIRD AREA I WOULD LIKE TO ADDRESS IS THE PROVISION THAT SOMEWHAT LIMITS THE LOANS TO KANSAS BANKS. OUR CURRENT BANKING LINE OF CREDIT IS LEAD BY A LARGE BANK IN KANSAS CITY, MISSOURI IN CONJUNCTION WITH A MUCH SMALLER BANK IN PAOLA, KANSAS. I WOULD HOPE THAT THERE WOULD BE SOME FLEXIBILITY FOR THOSE OF US IN THE KANSAS CITY AREA TO INCLUDE THOSE BANKS IN KANSAS CITY, MISSOURI.

AN AREA THAT THIS BILL DOES NOT ADDRESS THAT I WISH IT WOULD IS BONDING.

IN THE AREA OF BONDING WE HAVE FOUND IT VERY DIFFICULT TO GET PERFORMANCE BONDS IN THE EXPORT AREA. SOMETIMES THIS REQUIREMENT CAN BE CHANGED TO A BANK GUARANTEE OR LETTER OF CREDIT, BUT THAT EATS INTO YOUR LOAN LIMIT EVEN THOUGH YOU HAVE NOT TAKEN ANY CASH. A MILLION DOLLAR LETTER OF CREDIT WOULD TAKE A BIG CHUNK OUT OF MY LOAN LIMIT BUT A BOND WOULD NOT EFFECT MY LIMIT.

I CAN'T TELL YOU EXACTLY HOW THIS WOULD WORK, BUT ONE WAY WOULD BE FOR THE STATE TO HAVE PRIOR AGREEMENTS, OR UNDERSTANDINGS, WITH DIFFERENT BONDING COMPANIES THROUGHOUT THE WORLD THAT KANSAS COMPANIES COULD USE. THE STATE MAY ONLY ACT AS A COORDINATOR IN MOST CASES VERSUS A GUARANTOR BECAUSE NOT ALL BONDING WOULD REQUIRE STATE SUPPORT.

BILLS SUCH AS SB 21 WILL CREATE MORE BUSINESS FOR SMALL KANSAS COMPANIES WHICH IN TURN WILL PROVIDE MORE REVENUES TO THE STATE. I CAN'T SPEAK FOR OTHER COMPANIES BUT I CAN GIVE YOU A PRETTY GOOD IDEA OF WHAT AN ADDITIONAL MILLION DOLLARS IN SALES WOULD MEAN TO US AND THE STATE OF KANSAS.

- $1,000,000 SALES
- $300,000 GROSS PROFIT
- $13,000+ STATE CORPORATE INCOME TAXES
- 10 NEW JOBS
- $200,000+ ADDITIONAL PAYROLL
- $4,000+ UNEMPLOYMENT TAXES
- ? MULTIPLIER EFFECT IN OUR COMMUNITY

STATEMENT OF

RAY L. WILLIAMS

REGIONAL INTERNATIONAL TRADE OFFICER

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

KANSAS STATE LEGISLATURE

MARCH 21, 1989

House Eco Devo Committee
Attachment 5 3/21/89

MR./MADAM CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE TO SPEAK ON YOUR PROPOSED EXPORT FINANCING PROGRAM. SOME OF THE ITEMS THAT I WILL BRING UP CAN PROBABLY BE ADDRESSED IN THE REGULATIONS THAT WILL UNDOUBTABLY BE WRITTEN OR WITHIN THE STANDARD OPERATING PROCEDURE (SOP).

FIRST, IT MAY BE APPROPRIATE TO ADD AN EXTENSION (POSSIBLY 120 DAYS) OPTION INTO THE BILL. THIS MAY BE NECESSARY TO CLEAR SOME TRANSACTION THAT WOULD OCCUR LATE IN THE TWELVE MONTH PERIOD, PARTICULARLY IF THE CONTRACT WOULD REQUIRE MULTIPLE SHIPMENTS.

SECOND, THE BILL CURRENTLY DOES NOT CONTAIN A REVOLVING FEATURE. YOU MAY FIND THIS TO YOUR ADVANTAGE TO INCORPORATE SUCH A FEATURE. THE REVOLVING ASPECT WILL TEND TO REDUCE THE NUMBER OF APPLICATIONS THAT WOULD HAVE TO BE PROCESSED. IN OTHER WORDS, A CREDIT LINE WOULD BE ESTABLISHED FOR EACH FIRM, ELIMINATING THE NECESSITY OF A FIRM MAKING AN APPLICATION FOR EACH EXPORT ORDER RECEIVED AND AT THE SAME TIME ELIMINATING ADMINISTRATIVE WORK FOR THE STATE OF KANSAS. THIS WOULD ALSO HAVE A TENDENCY TO REDUCE THE LOAN REQUIREMENT FOR THE SMALL FIRM. INSTEAD OF CONSIDERING EXPORT FINANCING FOR AN ENTIRE YEAR, THEY WOULD ONLY NEED TO CONSIDER EXPECTED SALES FOR A MUCH SHORTER PERIOD OF TIME. FOR EXAMPLE, IF A COMPANY

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EXPECTED TO SELL $200,000 WORTH OF PRODUCT IN THE EXPORT MARKET DURING A FISCAL YEAR, IT WOULD BE NECESSARY TO HAVE THIS MUCH CAPITAL AVAILABLE. WITH OUT THE REVOLVING FEATURE, THE COMPANY WOULD HAVE TO BORROW THE $200,000 OR MAKE MULTIPLE APPLICATIONS. IF THE COMPANY CHOSE TO SEEK A $200,000 GUARANTEE AND FINANCING, THIS WOULD INCREASE THE COMPANY'S INTEREST EXPENSE DURING THE YEAR, AND REDUCE THE AMOUNT OF EXPORT FINANCING GUARANTTEES AVAILABLE IN THE KANSAS FUND. ON THE OTHER HAND, IF THERE WERE A REVOLVING FEATURE, THE FIRM COULD BORROW A MUCH SMALLER AMOUNT, AND TURN IT A NUMBER OF TIMES DURING THE YEAR. THIS WOULD REDUCE THE COMPANY'S INTEREST EXPENSE AND ALLOW THE STATE OF KANSAS TO ASSIST A LARGER NUMBER OF SMALL BUSINESSES.

THIRD, IT MAY BE IMPORTANT TO DEVELOP A "MEMORANDUM OF UNDERSTANDING" WITH OTHER FEDERAL ORGANIZATIONS TO CONSIDER THOSE REQUIREMENTS THAT EXCEED THE $300,000 GUARANTEE LIMIT. CURRENTLY, THE SBA HAS SUCH AN AGREEMENT WITH THE STATE OF CALIFORNIA. I AM NOT CERTAIN WHAT THE AGENCY'S POSITION WOULD BE TODAY, BUT I WOULD DO WHATEVER IS NECESSARY TO TRY TO DEVELOP SUCH AN AGREEMENT. ALONG THIS LINE, IT MAY BE NECESSARY FOR THE SECRETARY OF COMMERCE TO HAVE THE LATITUDE TO MAKE CERTAIN ADJUSTMENTS IN ORDER TO "MATCH UP" WITH OTHER PROGRAMS. (LOAN GUARANTEE FEES, LIMITS ON BANK FEES, BE A MEMBER OF THE LOAN COMMITTEE ETC.)

FOURTH, I WOULD LIKE TO EXPRESS A PERSONAL OPINION ON THE SUBJECT OF DUPLICATION. IT IS MY OPINION THAT THE KANSAS PROGRAM WOULD TEND TO COMPLIMENT THE SBA PROGRAM FOR SEVERAL REASONS. THE STATE OF KANSAS HAS THE POTENTIAL TO DEVELOP A BETTER MARKETING STAFF TO SERVE YOUR SMALL

BUSINESSES. I WOULD ALSO LIKE TO POINT OUT THAT THERE IS A CURRENT BACK LOG OF APPROXIMATELY 120 DAYS ON CURRENT FUNDING FOR SBA GUARANTEES. IF A WAY CAN BE FOUND FOR THE SBA AND THE STATE OF KANSAS TO WORK TOGETHER, THE ULTIMATE WINNER WILL BE THE SMALL BUSINESS COMMUNITY.

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU AND I WANT TO ASSURE YOU THAT I WILL DO MY UTMOST TO ASSIST IN ANY WAY THAT I CAN.

(6) Identification

SLC loans shall be identified by adding "SLC" as a prefix to docket number. COL loans will be identified by adding "COL" as a prefix to the docket number. SBA Form 135, "Loan Approval Document", block shall be marked "7" on both SLC and COL loans. Block 13 shall be marked code "1007" for SLC loans and "1008" for COL loans.

33. EXPORT REVOLVING LINE OF CREDIT

a. Program Purpose

SBA contributes to our nation's economic vitality by promoting and encouraging small business participation in international markets (see SOP 90 65, International Trade Program).

Authorized by section 7(a)(14) of the Small Business Act, this program is to provide funds for the manufacture or purchase of goods or services for export purposes, or for the purpose of penetrating and developing foreign markets. If the primary purpose is to develop or penetrate foreign markets, a regular 7(a) loan will probably be more appropriate. The Export Revolving Line of Credit (ERLC) has a revolving feature and is available under the guaranty program only. Draws against and repayments to the line can be made repetitively as long as the outstanding balance does not exceed the stated line of credit. Multiple export lines of credit may be outstanding at any given time as long as the total amount outstanding or committed does not exceed SBA statutory limits. Because of the revolving nature of these loans, they will not be available for sale on the secondary market.

The financial needs of the exporter will dictate whether a term loan, a contract loan, a seasonal line of credit, a revolving line of credit, or a combination of these plans is needed. It is anticipated that the lender's commercial loan officer will work with its international department (or with the international division of its correspondent) in the implementation of an ERLC. The complexities of export finance warrant the services of banking experts in this field.

b. Applicant Eligibility

Applicants for an ERLC, in addition to meeting the eligibility criteria applicable to all 7(a) loans, must have been in operation, though not necessarily in exporting, for at least 12 full months prior to the filing of an application. This requirement may be waived by the appropriate regional office if the management of the applicant has sufficient export trade experience or other management ability to warrant an exception to the general rule. Waivers can be made only by regional office officials with delegated authority to approve ERLC loans.

Export management companies (EMC), or export trading companies (ETC), may use the program. EMCs or ETCs are independent firms which act as an "export department" for manufacturers or wholesalers. These firms specialize in providing marketing and management services for firms who wish to engage in exporting but have limited or no experience in selling abroad.

Export Trading Companies which have any bank ownership are ineligible for the SBA loan program.

c. Use of Proceeds

The proceeds of an ERLC loan can be used only to finance labor and materials for pre-export production, and where appropriate, to penetrate or develop a foreign market. Proceeds may not be used to repay existing debt or to purchase fixed assets, but shall be used for current expenses, including purchase of supplies, inventories, materials and working capital needed for manufacturing or wholesaling products for sales overseas. Other eligible uses can include professional export marketing advice or services, foreign business travel or participation in trade shows, although the regular program will often be more appropriate for these purposes. The cost of acquiring, equipping, or renting office or commercial space in a foreign country, or wages for staff in such an office would not be eligible for ERLC.

It is not intended that SBA duplicate the functions or services of private lenders. Where irrevocable letters of credit are available or where receivables are to be insured by the Foreign Credit Insurance Association

(FCIA), conventional methods of financing should be available to conclude the transaction without SBA's guaranty at the point that the goods have been properly delivered to the carrier. However, where the program is needed for financing beyond the preparation or purchase of goods and services for export, (such as financing the receivable thereby created), the program may be prudently used for this purpose. As a general rule, receivables should not be financed by SBA without an acceptable letter of credit or FCIA insurance.

d. Maturity

The maturity of an ERLC loan, together with all extensions and renewals, cannot exceed eighteen (18) months. Of course, where the needs of the borrower would so indicate, a shorter maturity should be used. Subject to the 18 months maximum, the duration of each line of credit should be based on the needs of the business as indicated by a properly prepared cash flow statement.

e. Submission Requirements

(1) General

Application documentation and requirements are the same as for other 7(a) loans except that a cash flow statement shall be required. This statement should clearly indicate the projected status of the credit line at the end of each month and will indicate the extent and length of the financial needs of the applicant. This should correspond to the loan request. These statements should be tested for reasonableness. By indicating the projected status of the credit line at the end of each month, this statement can be used to monitor borrower progress after extension of the credit.

(2) Collateral

There are no special collateral requirements for this program other than that dictated by prudent lending practices. Only collateral that is located in the United States, its territories and possessions, will be acceptable security for ERLC

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loans. Collateral may include domestic receivables, insured foreign receivables, inventory, assignment of contract proceeds, personal guarantees, bank letters of credit, or any other asset under the jurisdiction of United States courts.

(3) Interest Rates and Fees

Interest rates are the same as for other 7(a) guaranty loans. A fee for extraordinary servicing of up to two (2) percent may be charged by the lender where warranted as permitted in paragraph 19 of this SOP. In addition, the participant in an ERLC loan is permitted to charge the borrower a commitment fee equal to one-fourth (1/4) of one (1) percent of the loan, or $200 minimum. This fee cannot be charged until SBA has approved the lender's request for guaranty. Where increases in the line are authorized, additional commitment fees may be assessed the borrower based on one-fourth (1/4) percent of the increase, but the $200 minimum will not apply. (Note: An amendment is necessary to the Guaranty Agreement, Form 750 or 750B as appropriate, to permit the charging of a commitment fee. This may be accomplished by addendum worded as follows:

> "For approvals under the Export Revolving Line of Credit program, lender may charge the borrower a commitment fee amounting to one-fourth of one percent of the loan amount or $200 minimum".)

The SBA guaranty fee amounts and policy shall be the same as for other 7(a) loans. Where the maturity is not in excess of 12 months the fee shall be one-quarter (1/4) of one (1) percent of the guaranteed portion of the loan. Where the maturity exceeds 12 * months the guaranty fee shall be two (2) percent * of the guaranteed portion of the loan. The guarantee fee may be charged to the borrower as provided in paragraph 19 of this SOP. Where the maturity is 12 months or less, the guaranty fee must accompany the application and will be held by the collateral cashier pending loan approval. This fee must be collected prior to approval advice.

(4) Loan Identification

ERLC loan will be identified with the prefix "EX" on the docket number. SBA Form 135, "Loan Approval Document," block 12, will be marked "7" and block 13 will be marked "1013." Block 15 will be marked "A."

34. EXPORT CO-GUARANTY LOANS

a. Program Purpose

SBA and Export-Import Bank of the United States (Eximbank) have signed a memorandum of understanding that provides for a program of co-guarantees to small business exporters and export trading companies. Except as provided herein, the terms and conditions of co-guarantees will be determined by SBA rules and regulations for Export Revolving Line of Credit loans (ERLC). Co-guaranties do not apply to any other 7(a) business loan program. Co-guaranties are to be used where they will serve the best interest of the applicant, and the independent field use of the ERLC program is not precluded. However, co-guarantees should normally be used where the applicant qualifies for the program.

b. Guaranty Amounts

* The co-guarantees extend to loan amounts ranging from $200,000 to $1,000,000 per borrower and shall cover up to 90% of the loan amount. (Please note that maximums and minimums are not based on SBA/Eximbank participation percentages.) Both SBA and Eximbank will guarantee equal percentages of the loan amount (usually 45% each). Unequal percentages are unacceptable to Eximbank, so situations that are not adaptable to this formula must be considered under another program or declined (see paragraph 34d.) *

c. Submission Requirements

SBA field offices will screen and process co-guarantee loan applications in the normal manner using SBA forms. ERLC rules and standards will apply regarding repayment ability, eligibility of borrowers, use of proceeds, permissible interest rates and fees. Collateral should be secured by a first lien on the assets obtained by the loan proceeds, but additional collateral, including junior liens, can be required where appropriate.

Collateral can consist of inventory, receivables, or other assets as appropriate including personal guaranties. The outstanding loan balance cannot exceed 90% of the book value of collateral.

d. Eximbank Liaison

Loans that meet SBA standards for approval will be forwarded to Eximbank by certified or registered mail addressed to Export-Import Bank of the United States, Office of Exporter Credits and Guarantees, Attn: Vice President, 811 Vermont Avenue, N.W., Washington, DC 20571. SBA will submit its recommendation by means of "Application and Co-Guarantee Approval". This is an Eximbank form and can be obtained from them or from the regional office. It should be accompanied by a copy of the loan officer's report and the proposed authorization. If Eximbank approves the SBA recommendation for participation, Eximbank will return the file and a copy of the "Application and Co-Guarantee Approval" to the originating SBA office. Receipt of this document gives SBA the authority to sign co-guarantee documents on behalf of Eximbank.

In the following situations the field office will forward the loan application to Eximbank without recommendation for SBA participation, but with its reasons for not participating:

(1) SBA declines for credit or policy reasons. The participating bank should be advised of an SBA decline and that the package is being forwarded to Eximbank for its consideration without SBA.

(2) SBA decides that a loan in excess of $1,000,000 is reasonable and justified.

Eximbank will process and service its direct loans without SBA involvement.

e. Authorizations

Authorizations will be appropriately modified to reflect the co-guaranty arrangement. The participating bank must execute the authorization in addition to SBA and the applicant. SBA will sign on behalf of Eximbank. Guaranty fees will be shared on a pro rata basis within five days of receipt.

f. Loan Identification

Co-guaranty loans will be identified with the prefix "EXC" on the docket number. SBA Form 135 will be coded "1014" for the program subcode. All other codings will be the same as for ERLC loans.

35. SMALL GENERAL CONTRACTOR LOANS

a. Program Purpose

This program is authorized by section 7(a)(9) of the Small Business Act to provide a source of additional financing for small general contractors to finance residential, commercial construction, or rehabilitation for resale. Loans may be made on a direct, immediate participation or guaranty basis under this program.

b. Applicant Eligibility

Applicant must be a construction contractor, who does a portion of the construction/renovation work with his own employees. A concern that just manages the job and subcontracts all actual work to others is not eligible.

Renovations must be "prompt and significant" to be eligible. Construction must begin within a reasonable time after loan approval and the cost of renovation must equal or exceed one-third (1/3) of the purchase price of the property. Buildings that have been owned by the applicant for a number of years and are now being scheduled for renovation and resale are eligible under this program. In such cases the cost of renovation must equal or exceed one-third (1/3) of the fair market value at the time of loan application.

SBA may allow the structure to be rented pending sale only in those cases where the rental will enhance the sale of the property. Some large commercial structures and apartment buildings cannot be sold until a large percentage of the units are rented. Conversely, it is difficult to sell single family, detached homes that are rented. The field office must decide each case on its own merits. Rentals must not be permitted as a means of putting the structure into applicant's personal portfolio.

Final sale of the project must be to an unaffiliated third party. This program is not to be used to provide the applicant with construction financing for a structure that will become part of the applicant's or an affiliate's investment portfolio. There must be a true transfer of both legal and beneficial title to the property.

c. Use of Proceeds

Loan proceeds are to be used only for direct expenses related to the construction/renovation cost of the project. This includes labor, supplies and materials, equipment rental expenses or direct fees (buildings permits, inspection fees to qualify for interim disbursements, etc.). Cost of land may be included as long as the cost of vacant land does not exceed 20 percent of the loan proceeds. Such items as utility connections (either above or below ground), construction of septic tanks, and landscaping are eligible. Up to five (5) percent of the SBA loan may be used for improvements that benefit all properties in the subdivision such as streets, curbs, sidewalks, or open spaces.

d. Maturity

Maturity cannot exceed 36 months plus a reasonable estimate of the construction or renovation period. Repayment of the principal may be required as a single payment at the time of sale. Interest payments are required at least semi-annually and must be paid from the applicant's own resources, not from loan proceeds.

e. Repayment

The applicant must have demonstrated a successful performance record in bidding and completing construction renovation at a profit within the estimated construction period. In addition, the prior successful performance must be of comparable type and size to the proposed project. For example, prior experience in single family construction is not comparable to high rise apartment construction.

FACT SHEET NO. 51

U.S. Small Business Administration

EXPORT REVOLVING LINE OF CREDIT LOAN PROGRAM

THE PROGRAM

To assist small businesses in exporting their products and services abroad, SBA has established the Export Revolving Line of Credit Loan Program (ERLC). Any number of withdrawals and repayments can be made as long as the dollar limit of the line is not exceeded and the disbursements are made within the stated maturity period.

ELIGIBILITY

Applicants must qualify as "small" under the SBA size standards and meet the other eligibility criteria applicable to all SBA loans. In addition, the applicant must have been in business for at least 12 months prior to filing an application. The business must be current on all payroll taxes and have in operation a depository plan for the payment of future withholding taxes.

USE OF PROCEEDS

Proceeds can be used only for the following:

(a) To finance labor and materials needed for manufacturing or purchasing goods or services for export;

or

(b) To develop foreign markets.

If the primary purpose is to develop or penetrate foreign markets, a regular 7(a) loan probably may be more appropriate. Funds may not be used to pay existing obligations or to purchase fixed assets; other SBA programs can be used for these needs.

AMOUNT OF LOAN

Through this program, SBA can 750,000 guarantee up to ~~$[illegible]~~ or 85 percent of the loan, whichever is less. The maximum guaranty for loans up to $155,000 is 90 percent. An applicant may have other SBA loans in addition to an ERLC as long as the total outstanding balance of all such loans does not exceed $500,000 (SBA's share). With the co-guaranty of the Export-Import Bank, the loan amount can be increased to $1,500,000.

MATURITY

The maturity of an ERLC is based on applicant's business cycle, but cannot, together with all extensions, exceed 18 months. No provision exists for renewals, but borrowers can reapply for a new line upon expiration of an existing line of credit.

INTEREST RATES

Interest rates are determined by negotiation between the applicant and the participating lender, but they are subject to maximums specified by SBA, the same as for other SBA guaranty loans.

FEES

Guaranty fees must be paid to SBA as follows:

(a) For maturities of 12 months or less, the fee is one- fourth of one percent of the guaranteed portion of the loan.

(b) For maturities exceeding 12 months, the fee is two percent of the guaranteed portion of the loan.

Guaranty fees must be paid by the lender but may be charged to the borrower upon approval of the ERLC by SBA.

The lender may charge the borrower a commitment fee equal to one-fourth of one percent of the loan amount or $200 minimum. This fee cannot be charged until SBA approves the ERLC. In addition, the normal fees permitted on all SBA loans may also be assessed on ERLC loans.

COLLATERAL

Such collateral as prudent lending practices dictate will be required, including appropriate personal guaranties. Collateral may include accounts receivable, inventory, assignment of contract proceeds and bank letters of credit. Only collateral that is located in the United States, its territories and possessions, or other assets under the jurisdiction of U. S. Courts will be acceptable.

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EXPORT REVOLVING LINE OF CREDIT LOAN PROGRAM

SPECIAL PROGRAM REQUIREMENTS

A cash flow projection depicting monthly activity and cash balances is a vital tool for determining cash needs and for monitoring borrower progress after disbursement. This cash flow projection must be submitted with the application covering anticipated activity during the term of the ERLC. Monthly progress reports are to be submitted by the borrower to the lender. Discrepancies between the projected cash flow and the progress report will provide an early warning of problems to the lender so that appropriate preventative servicing actions can be taken.

HOW TO APPLY

ERLC loans are available only under SBA's guaranty program. A prospective applicant should review the export financing needs of the business with his/her bank of account. If the bank is unable or unwilling to make the loan directly, the possibilities of a participation with SBA should be explored.

ADDITIONAL INFORMATION

Detailed information can be obtained from the nearest SBA office in your area.

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Office of Public Communications
December 1986